

NSC BRIEFING

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1 NOVEMBER 1965

## BRAZIL

- I. In 3 October presidential election, with count almost complete, clear that Juscelino Kubitschek has won presidency and Joao Goulart the vice-presidency by small pluralities, with Kubitschek having a slightly greater margin than Goulart.

A. Latest official Electoral Court count (29 Oct) shows:

<u>PRESIDENT</u>	<u>VOTE</u>	<u>VICE PRESIDENT</u>	<u>VOTE</u>
Kubitschek ---	2.8 million	Goulart -----	3.3 million
Tavors -----	2.5 million	Campos -----	3.2 million
Barros -----	2.1 million	Coelho -----	1.1 million

(some 1 million ballots have not yet been officially tallied)

B. Both were candidates of coalition of Brazil's leading party--the Social Democratic Party (PSD)--and the Brazilian Labor Party (PTB).

C. Were also supported by two lesser parties, plus the well-organized but outlawed (since '47) 120,000 strong Communist Party (estimated able to deliver 4-500,000 votes).

1. Kubitschek, but not Goulart, also supported by right-wing Republican Party.

II. Prospects of successful court challenge of election results are now considered poor.

A. Supporters of Tavors have been reported planning such court challenge.

DIA and DOS review(s) completed.

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- B. However, Chief Justice of Superior Electoral Court-- official vote counter--stated on 20 October, "election can only be challenged if number of votes mentioned in charges of irregularities corresponds to number by which a candidate has won."



- III. Prospects of coup by military to prevent inauguration of pair (in Jan '56), once deemed probable, now also waning.
- A. Strong, long-standing opposition of military to Kubitschek and Goulart is based on ties of both to late President Vargas and his supporters.
- B. Military particularly dislike Goulart's record as Vargas' Minister of Labor (June '53 to Feb '54, when ousted by military pressure) during which time he:
1. Cooperated with Communists to foster development of labor as a political force.
  2. Sponsored (1954) a 100% hike in minimum wage, which meant that common laborer was paid more than an army master sergeant.
- C. Most important of coup advocates are the so-called "colonels' group," lower-echelon officers who have both personal and patriotic incentives, but weak leadership.

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IV. However, most prominent Brazilian civilians, including leading figures of leading political parties, are opposed to any military coup, as is incumbent president Cafe Filho.

A. So are most top military leaders, including armed forces cabinet ministers--

1. War minister (Gen. Henrique Teixeira Ldt, inflexible opponent of military interference in political matters):

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2. Air minister (Gen. Eduardo Gomes, who, although strongly opposed to Goulart, is apparently reluctant to use extra-constitutional means to set aside election results);
  3. Navy minister Adm. Amorim Do Valle, who has voiced support of "constitutional order."
- B. Coup opposition also includes much of military rank-and-file.
1. US military attache after a personal visit to Army units in southern Brazil, reported them to be hoping for some legal means, rather than a coup, to keep Goulart out of office;
  2. Seventy air force officers in Sao Paulo were reported in a 27 October broadcast to have signed a pledge to fight any coup attempt;
  3. Army officers at various posts in northern Brazil are also opposed, according to unconfirmed press and radio reports.
- C. Our estimators believe that, although the possibility of a military coup cannot be ruled out completely, the military leaders will be reluctant to abandon their traditional role of guardians of constitutional order and others, who favor a coup, lack strong leadership.
- D. It is believed, therefore, the Kubitschek and Goulart will almost certainly take office as scheduled.
- E. Following their inauguration, however, the armed forces will watch the new administration very closely for any missteps that threaten national stability.

V. In addition to this Damocles' sword, Kubitschek's administration faces several pressing problems: the chief ones--inflation and foreign exchange shortages, the crucial petroleum question, and, finally, the new administration's relations with the splintered Brazilian Congress.

A. As to inflation, the cost of living in Rio has more than trebled since 1948.

1. Brazilian inflation has been fostered since 1947 by a combination of government deficits and expansion of credit.
2. Lag of wages behind prices during this time was largely met in July '54 when minimum wage was doubled.
3. Since then, however, Labor's gain has been largely wiped out by further price rises, and workers restive.

B. As to foreign exchange, Brazil's economic growth depends upon its capacity to import necessary capital goods and raw materials, and this capacity is limited by the volume of Brazilian exports.

1. Coffee makes up about two thirds of exports; continued high prices for coffee unlikely.
2. Also, to allow needed imports to be purchased cheaply, the official rate of the cruzeiro has been maintained at artificially high level.
3. This overvaluation of the cruzeiro has weakened competitive position of other Brazilian exports.

4. Net deficit on investment account has also added to Brazil's foreign exchange problem (deficit in '54 was about \$141 million).
5. By the end of '54, Brazil's total exchange obligations had risen to about \$2 billion.

C. The petroleum problem is another open sore in the Brazilian economy.

1. '54 consumption averaged 100,000 barrels per day (an 84% increase over '50).
2. Brazil's own domestic output meets less than 2% of demand.
3. Oil imports in '54 cost about \$250 million (one-third of Brazil's dollar earnings).

D. At least \$1 billion would be needed to develop Brazil's potential petroleum resources (see map) to meet present demand.

1. Of this, over \$700 million would have to be spent abroad for equipment and technical labor.
2. Brazil alone cannot afford such an expense.
3. Even if foreign capital participated, volume output would probably not be reached for another five-ten years.

E. At present, foreign petroleum companies in Brazil are restricted to distribution and marketing, while petroleum exploration and development legal monopoly of PETROBRAS (established by 1953 law).

1. This is a government (majority) - private capital (minority) corporation, in which native Brazilians alone may invest.
2. Whole question of exploitation Brazil's oil resources is not political issue.
7. Final Kubitschek problem involves relations with Congress, from which body no Brazilian president has had dependable support in past 25 years.

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1. On paper, total of five parties nominally supporting Kubitschek for presidency have 44 of 63 Senate seats, 201 of 326 in Chamber.
2. However, this does not presage solid support in Congress, because, even in presidential campaign, "supporting" parties were divided.
3. Kubitschek's primary support (PSD) was about 85% for him, while Goulart's party (PTB) was far more badly divided.

Present Congress (elected in Oct '54) will stay until '58. Perhaps Kubitschek's major congressional problem will arise over status of Goulart.

1. If Kubitschek gives Goulart free hand to cooperate with Communists in building up political labor movement, he courts opposition of anti-Goulart elements in Congress, as well as military coup.
2. If Kubitschek curbs Goulart, he may lose support of pro-Goulart elements in Congress.

3. Kubitschek, a shrewd politician, should be able to assess whether pro- or anti-Goulart elements are strongest and behave accordingly. In our belief, antis outweigh pros.

VI. Based on what we know of Kubitschek, we expect that he will follow these policies:

- A. On the economic scene, Kubitschek's long-range solution to problem of inflation likely to be stepped-up expansion of production.
  1. His governorship of Minas Gerais (1951-55) was marked by extensive construction of power facilities, highways in effort to stimulate industrial growth there.
  2. One slogan during campaign for presidency: "Power, transportation and food."
  3. In 21 Oct interview with US newsmen, he mapped out broad program of building roads, improving Brazil's inadequate railway system, producing more electricity, steel, aluminum and fertilizer, added that program will require \$500 million in equipment over the next five years, mostly from US.
  4. Since Kubitschek is opposed to policy of austerity to help finance economic expansion, inflation will almost certainly continue, and balance of payments problem not likely to improve substantially in next few years.

**E. Kubitschek wants US help.**

1. Told newsmen he was confident that if Brazil "presents to the United States a realistic explanation of our problems and the solutions we plan, we will get the necessary financial aid."
2. Took similar line to Ambassador Dunn on 18 October, adding that US was only country which could be of assistance to him in his economic plans.

**C. Kubitschek will almost certainly attempt to continue Brazil's traditionally close ties with the US.**

1. He will probably cooperate with the US on major international political issues in the UN and the OAS.
2. In return, he will expect US assistance for his development program.

**B. He will try to solve petroleum dilemma. Kubitschek has thusfar handled ticklish petrobras issue very cautiously because:**

1. Both Communists and conservative nationalists, who supported him in presidential campaign, are strongly opposed to any foreign participation in Brazil's petroleum development.
2. Communist-originated slogan, "the oil is ours," is popular throughout Brazil.
3. But Kubitschek statements have implied he will use other means to develop Brazil's oil if Petrobras fails to prove itself in year's time.

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4. To avoid political risk of attempting repeal of petrobras law, he may instead seek to by-pass it.
5. Because economic problems outshadow all others, new government's actions on Communist problem likely receive low priority.
  1. Communists, with possible Goulart assistance, will seek to increase influence in organized labor and bureaucracy.
  2. Kubitschek will probably resist these efforts, both as matter of expediency in his tense relations with the military, and as a matter of possible personal principle.
  3. Told Dunn on 18 Oct that, despite Communists' support during campaign, he has no commitments to them.
  4. Further stated that, as congressman from Minas Gerais, has voted to outlaw Commies in '47 and still felt same way.
  5. Pointed out he was "practicing Catholic," which entails anti-Communism.
  6. Concluded with statement of his belief in private enterprise.

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